



LOTOS Group
Integrated Annual Report 2018

05. **SUSTAINABLE DEVELOPMENT**

Our approach to sustainable development

To us, sustainable development is an integral part of our business. We are aware of our community and environmental impacts. Therefore, as a socially responsible corporate citizen, we are guided by ethical values in our business.

We are strongly committed to compliance with international standards, such as ISO 26000, with respect to corporate governance, human rights, labour practices, the environment, fair operating practices, consumer issues, as well as community engagement and development.

OUR STRATEGIC APPROACH TO SUSTAINABLE DEVELOPMENT RESTS ON THE FOLLOWING PILLARS



SOCIAL RESPONSIBILITY

Creating value for the social environment



RESPONSIBILITY FOR THE NATURAL ENVIRONMENT

Creating value for the natural environment



CORPORATE RESPONSIBILITY

Creating economic value

In 2018, the LOTOS Group addressed the challenges defined by 17 Sustainable Development Goals (SDGs) until 2030, Vision of Sustainable Development for Business in Poland until 2050, and the ten Global Compact principles.

IN LINE WITH THE VISION OF SUSTAINABLE DEVELOPMENT FOR BUSINESS IN POLAND UNTIL 2050, WE HAVE UNDERTAKEN TO:

- base our efforts on broad cooperation, innovative thinking and education of both our own employees and members of the public;
- conduct business activities relying on trust and dialogue;
- initiate cooperation with academic centres and schools to educate future employees;
- create conditions and opportunities conducive to employee development;
- promote and support the implementation of new technological solutions;
- develop infrastructure and implement investment projects based on dialogue and in accordance with principles of sustainable development;
- take measures to reduce our environmental footprint;
- introduce solutions to reduce energy consumption, including through implementation of new technological solutions, process optimisation and education;
- engage in dialogue with the government and share our experience in issues that are material to entrepreneurs and economy;
- raise ethical standards in business, including in relationships with all stakeholder groups.

For more information on our strategic approach to social and environmental responsibility, see:



Corporate social responsibility values

Our responsibility towards society and the natural environment manifests itself in carrying out production activities in a manner preventing degradation of natural and social capitals. As the LOTOS Group, we feel responsible for our products towards the state, the market, our partners, customers, and employees.

We conduct our business in compliance with ethical principles, respecting standards in all areas of our operations. We have adopted a system of values which is founded on respect for the needs of society and the natural environment.

THE FOUR PRIMARY VALUES UNDERLYING THE LOTOS GROUP'S CORPORATE SOCIAL RESPONSIBILITY ARE:



TRANSPARENCY

We undertake to comply with the most exacting environmental standards, remain committed to ethical and fair competition, and counteract the abuse of human rights



OPENNESS

We are open to changes, the world's needs and people's expectations



INNOVATIVENESS

We take an innovative approach to solving social and environmental issues; by acting in accordance with the principles of sustainable development, we achieve business benefits and gain competitive advantage on the market



RESPONSIBILITY

The underlying principle of our attitude towards mankind and its future, the environment, the home country and its international status

Employees

Management approach

Employees are the pillar of our organisation. We firmly believe that highly qualified, motivated and committed employees are essential for the entire Group, improving its efficiency and giving it a competitive advantage on the market. To attract the best candidates and retain the existing staff, we have in place a HR policy governing various aspects of the recruitment and employee management processes.

Our new employees are included in the **'Good start for beginners'** onboarding programme, helping them to learn about the Company's values and organisational culture under the supervision of experienced colleagues. The purpose is to facilitate their entry into the new work environment and integration with the team, as well as to reduce the stress involved in starting a new job.

The LOTOS Group employees are provided with a wide range of medical services. The Group takes care to protect their health and ensure safe and ergonomic conditions for their daily work.

High standards are also of paramount importance at the recruitment stage – transparent rules allow us to attract the best candidates (the LOTOS Group is a member of the Coalition for Friendly Recruitment).

Easy access to training and promotion opportunities, the possibility of reconciling professional duties with private and family life, as confirmed by the Top-Quality Human Resources Certificate issued by the Polish Human Resources Management Association (PSZK), as well as internal standards of protection against mobbing and discrimination increase loyalty towards the company, reduce employee turnover, and minimise the risk of loss of valuable employees.

For years now, we have been building an organisational culture that promotes innovativeness. Our employees have the opportunity to take part in the **'LOTOS Inspires' Innovation Support Programme**, as part of which the **'Turn an Idea into Reality'** competition allowing all employees to share their innovative ideas on how to enhance work efficiency is held. The purpose of the Programme is to develop products and services and to discover new business and organisational models.

The Collective Bargaining Agreement covers 97% of the Grupa LOTOS employees.



See our employee disclosures: Number of employees by gender, function, type of contract and region

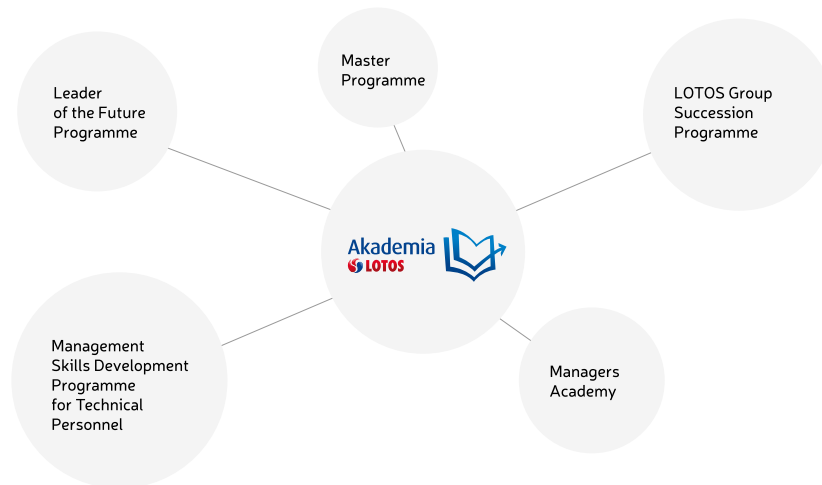
Training and education

Our training policy provides each employee with the opportunity to increase their competencies and consolidate their strengths. It helps us discover talent within the organisation and support our experts. Well-selected training raises the LOTOS Group employees' satisfaction and engagement.

We conduct satisfaction surveys to best suit training themes to the needs of our employees. We also take into account each individual's and organisational units' development plans as well as development needs of the Company. Our employees' achievements are summarised and discussed using the Periodic Employee Evaluation System (PEES).

In 2004, we launched LOTOS Academy, our training and development programme.

LOTOS ACADEMY INITIATES AND RUNS TALENT DEVELOPMENT PROGRAMMES TARGETED AT VARIOUS EMPLOYEE GROUPS, INCLUDING:



See our employee disclosures: Average number of training hours per year per employee

Diversity management

At the LOTOS Group, we value diversity – it is an integral part of both our business activities as well as HR policy and employee promotion. We place particular focus on equal treatment irrespective of gender, age, disability, health, race, nationality, ethnic origin, religion, religious denomination, irreligiousness, political beliefs, trade union membership, gender identity, family status, lifestyle etc. Our diversity policy allows us to maximise the employees’ potential and use their experience and skills.

We highly value the experience gained during many years of service. Employees aged 50 or more provide support to new hires as part of induction processes (shadowing and mentoring meetings). Such relationships bring numerous advantages and benefits for both parties.

See our employee disclosures: Supervisory Board members and workforce by gender, age, membership to a minority and by other diversity indicators

Occupational Health and Safety

The safety of our employees is a top priority for us. All LOTOS Group employees regularly take part in training and educational campaigns presenting potential risks at the workplace.

THE KEY ONES INCLUDE:

- ✓ stress management training,
- ✓ initiatives focused on:
 - ✓ healthy eating habits,
 - ✓ quitting smoking,
 - ✓ safety when handling heavy objects,
 - ✓ physical exercise and activity,
 - ✓ office ergonomics,
 - ✓ organisation of work at the workstation, safe use of chemicals,
 - ✓ noise protection.

Safety at work and health protection take precedence in our business. Our key principle states that 'no job is too important or urgent that it cannot be done safely'. We attach particular importance to maintaining high safety standards, minimising potential risks, and raise employee awareness regarding safe working culture.

To improve safety at work, we have formulated a set of golden OHS rules to be followed by the LOTOS Group employees, based on applicable laws and internal regulations. The rules were defined following an analysis of risks and hazards which occurred over the last decade. They aim to reduce the risk of accidents and incidents posing threat to employees' life and health, set high occupational safety standards, and foster the right behaviour among employees.

In June 2018, an awareness campaign for employees using the intranet was held, featuring short films explaining each of the 'golden rules'.

GOLDEN RULES OF OCCUPATIONAL SAFETY FOR A LOTOS GROUP EMPLOYEE











In order to better familiarise the employees with occupational safety issues, an 'OHS Day' is organised at our Gdańsk refinery each year. During the event, which has been held nine times, employees receive free medical examinations and consultations, attend healthcare workshops, and participate in OHS competitions. During the 2018 OHS Day, employees took part in the First Run around the Refinery.

In 2018, our employees also participated in the 100-day Global Challenge competition designed to promote good physical activity and eating habits. This was also an excellent opportunity to strengthen relations within the team. The programme had 273 participants making up 39 teams. In total, they ran almost 290,000 km.

Over the previous year, we carried out a number of additional initiatives aimed at improving occupational safety and educating our employees in OHS matters.

THE MOST IMPORTANT INITIATIVES WERE:

-  OHS reviews conducted by the management;
-  tests of new protective clothing made with materials providing greater comfort than those currently in use (in terms of flexibility, summer thermal properties, and style). The test results will be used to analyse whether it is reasonable to replace the currently used clothing with new, more comfortable and offering better protective features;
-  e-learning OHS training for contractors, in five languages;
-  purchase of a fire training simulator for practical drills in the use of fire extinguishers and in fire fighting;
-  purchase of first-aid phantoms for educational purposes;
-  purchase of new protective footwear for employees (with anti-puncture insoles, anti-slip soles, lighter toecaps, etc.);
-  'Minute for Safety' – an initiative consisting in starting various meetings/training/briefings with the organiser's discussion of an OHS issue.








 See our OHS disclosures: Injury, occupational diseases, lost days and absenteeism rates and number of work-related fatalities by region

Employee volunteering



At the LOTOS Group, there are numerous socially engaged employees. It is for them that the Employee Volunteering Programme has been established, under which employees may apply for co-funding for their projects. In 2018, 12 projects received minigrants from the LOTOS Foundation and assistance from our employees reached **1,283** people. This was the second competition organised under the Employee Volunteering Programme at the LOTOS Group.

The projects carried out as part of the programme were very diverse. Our employees worked for hospice patients, the disabled, children, and local communities.

THE HIGHEST NUMBER OF OUR EMPLOYEES' PROJECTS WERE ADDRESSED TO CHILDREN:

-  **'Dynamic Parents'** – playground restoration,
-  **'Preschoolers' Parents'** – programming workshops,
-  **'LOTOS for Straszyn'** – creation of rest areas and corridor game zones at schools to make school breaks more attractive,
-  **'Together We Play'** – football training for children from the Ostaszewo area,
-  **'Tleniak'** – educating children and youth on safe use of firearms and related risks,
-  **'Children from Stogi'** – trips for youth to places of national memory,
-  **'Happy to Help'** – Children's Day event for preschoolers from Przejazdowo.

INITIATIVES ADDRESSED TO THE DISABLED INCLUDED:

-  **'Against the Odds'** – a space development project on the premises of the Mimo Wszystko (Against the Odds) Foundation to create a garden for the disabled.
-  **'Life Boat'** – one-day trip to the Hel peninsula and Władysławowo for students of Special School Complex No. 2 and members of the Łódź Ratunkowa (Life Boat) Association. Photos taken during the trip were displayed at the school's exhibition devoted to the 100th anniversary of Poland regaining independence.

We also supported the **'#Turn on Patriotism on for Independent Poland'**. This cross-generational project, with the youngest participant being a five-year old and the oldest one – 95 years old, adding up to a 100, was organised to celebrate 100 years of Poland's independence in 2018.

The LOTOS Group employees may also participate in sports and recreational programmes and events organised by **TKKF LOTOS** (LOTOS Physical Culture Promotion Association). The Association runs sports training programmes, such as the **LOTOS Running Team**, which combines the promotion of physical culture with the concept of employee volunteering: our runners participate in charity runs.

In 2018, **62 employees** of the LOTOS Group participated in employee volunteering initiatives, devoting to them a total of **331 hours**.

The environment

LOTOS's environmental impact

The scale of the LOTOS Group's operations places on the Group high responsibility for its impact on the environment and local communities living in the vicinity of our refinery and plants. In order to properly manage this impact and avoid potential risks, we have developed a set of environmental responsibility principles to follow in our day-to-day operations.

PRINCIPLES OF ENVIRONMENTAL RESPONSIBILITY

- First, we minimise the environmental impact of our company. In addition to fulfilling applicable legal requirements, we take proactive measures in managing environmental issues.
- Second, we apply our approach to environmental protection in transactions with our trading and business partners. We take responsibility for the environmental impact of the companies we work with. Our partners are only those entities which hold appropriate environmental permits and operate in compliance with the legal requirements on waste management and storage of hazardous substances.
- Third, we ensure compliance with environmental protection requirements at each step of our operations: starting from the day-to-day operation of our production units and applying the most environment-friendly technological solutions to rational use of natural resources. We prevent pollution already on the plant premises by complying with the most stringent environmental standards.

Another important aspect of our pro-environmental initiatives is raising the environmental awareness of our employees. Through internal communication and training, we familiarise our employees with environmental protection issues and their relevance in the context of the LOTOS Group's local and global operations.



[More about our approach to the environment](#)

Our strategy in view of climate change

The LOTOS Group is a dynamically growing business which carries out research on new, more eco-friendly energy solutions.

We focus on natural gas, whose low emission intensity makes it a widely used fuel at the LOTOS Group's plants. At our CHP plant, we have replaced fuel oil with natural gas, making it the main energy raw material in steam generation. It is also the main component of fuel gas at our refinery.


We also use natural gas as feedstock for hydrogen generation (previous, we used LPG and naphtha to produce hydrogen, both more emission intensive than natural gas). Thanks to these changes, we are able to maintain carbon dioxide emissions at a stable, low level.

Environmental management areas

Sustainable development is consistent with the LOTOS Group's strategy, and mitigating our environmental impact is our constant objective. We strive to deliberately manage environmental issues by reducing the consumption of energy, raw materials, feedstocks and materials, controlling and reducing gas emissions and waste and wastewater generation, and promoting biodiversity. As the LOTOS Group's operations affect various components of the ecosystem, we monitor and analyse our environmental impact on an ongoing basis.

Year after year, we have been reducing air emissions, and in the exploration and production segment we reduce waste volumes and improve water and wastewater management. Given its environmental aspect, energy management is equally important. We analyse energy consumption at each stage of the value chain, monitor the technical condition of our equipment, and identify and eliminate sources of energy losses. All these aspects are also considered when working on new investment projects.

We also take care to mitigate our impact on local communities. Despite the lack of any legal regulations binding on us in this respect, we reduced the odour nuisance of our wastewater treatment plant in Gdańsk (recirculation of treated wastewater and steam condensate, and flare gas recovery). During the refinery upgrade, we connected neighbouring towns and villages to the gas distribution network.

 See our environmental disclosures: [The environment](#)

LOTOS programmes supporting environmental protection

The protection of biodiversity of the Baltic Sea is very important for the LOTOS Group due to the coastal location of our refinery and the areas of high natural value located in the immediate vicinity of the Company's premises. In partnership with the Foundation for the Development of the Gdańsk University (FRUG) and the Marine Station of the Gdańsk University's Institute of Oceanography in Hel, we are implementing the **'Direction: Baltic'** project, which provides for a wide range of measures to protect the fauna and flora species on the verge of extinction in the Baltic Sea, including the extremely rare porpoises. As part of the programme, educational campaigns are organised to raise the environmental awareness of the local community and tourists visiting the Pomerania region.








The project features two live streamings: from the Seal Centre in Hel and from the falcon nest on the refinery's premises.

Society

Initiatives for local communities

Relations with local communities living in our impact areas are an important aspect of the LOTOS Group's social responsibility. We feel responsible for these communities and make every effort to address their social problems.

OUR INITIATIVES FOR LOCAL COMMUNITIES

-  Since 2004, the LOTOS Group and the Polish Ski Association have been running the National Ski Jumping Development Programme **'In Search for the Champion's Successors'**, which provides support to sports clubs where ski jumping and Nordic combined athletes practise. LOTOS Cup competitions are also organised as part of the programme.
-  Under the **'Football Future with LOTOS'** programme, young football players and coaches are able to hone their skills at Football Academy LG and one of the 14 football clubs. The LOTOS Group sponsors the purchase of sports equipment, football camps and sports scholarships for the most promising players and for children from disadvantaged backgrounds.
-  The **'LOTOS Safety Belt Champions'** programme teaches car passengers about safety principles, correct fastening of safety belts, and installation of safety seats for children. Primary school pupils in Jasto were also given lessons on safety rules.
-  Under the **'Talent with LOTOS'** programme, we educate teachers on how to improve their skills in working with talented students. After-school classes in mathematics, physics and IT, as well as competitions are organised. In addition, pupils receive mentorship as well as scholarships.
-  The **'Dynamic Seniors with Energy'** programme is addressed to 55+ people wanting to improve their physical fitness and health. In addition to weekly sports classes (15 weeks), the Municipality Senior Citizen Days were organised, featuring competitions and workshops. Seniors also had an opportunity to see a geriatrician and dietician and take various medical tests.
-  Since 2013, the LOTOS Group has been a patron of the **E(x)plory** project, the largest initiative in Poland to support talented youth in the implementation of innovative research projects and promote their achievements internationally. The project brings together young people, prominent scholars, start-ups and experienced businesses, non-governmental organisations, media, Polish schools and the best universities, large cities and small towns. Its aim is to promote science among children and young people.
-  We also completed educational programmes, such as **'Talent from Czechowice-Dziedzice, a Town of Fiery Enthusiasm'** and the **'We are looking for an IT Genius'** competition, run together with Wyższa Szkoła Biznesu – National Louis University in Nowy Sącz.

Together with Wyższa Szkoła Biznesu – National Louis University of Nowy Sącz, Grupa LOTOS inspired young people to develop through participation in the **IT Genius** project. The 'IT Genius' competition is a unique equal-opportunity programme for exceptionally talented youth, designed to popularise computer science and new technologies. It provides young people with an opportunity to demonstrate their exceptional skills and start a career in new technologies and industry.

Grupa LOTOS employees have repeatedly demonstrated that they have great hearts and are eager to help those in need. In 2018, we held a Christmas fair selling hand-made items created during the Occupational Therapy Workshops run by the **Gdańsk Archdiocese Caritas**. The proceeds were used to organise holiday and rehabilitation for disabled participants of the Occupational Therapy Workshops.

LOTOS Group employees prepared Christmas gifts for more than 30 children as part of the initiative of the Municipal Centre for Family Support in Gdańsk (Miejski Ośrodek Pomocy Rodzinie w Gdańsku). They also responded to an appeal from the 'Pod Parasolem' Social Committee, which requested help for the children under its care. Collections of warm clothes and winter footwear for the poor and needy, struggling financially and often homeless, were also organised as part of the 'Monciak Soup' and 'Chylonia Soup' initiatives.

Regional initiatives also included: Pre-schooler's Day at LOTOS service stations, the Noble Package, and support campaign for the Mławianka Mława junior football team.

Sponsorship activities

The LOTOS Group supports social initiatives and projects. Our sponsorship activities focus on sports, culture and art, as well as social and environmental initiatives carried out primarily in the counties and provinces where our plants are located, as well as at places where we conduct our trading activities, including our service stations.

IN 2018, WE IMPLEMENTED:

22

sports sponsorship projects

17

cultural sponsorship projects






14

social and environmental sponsorship projects



Sports sponsorship

IN 2018, WE CARRIED OUT 22 SPORTS SPONSORSHIP PROJECTS IN THE FOLLOWING AREAS:

-  Sponsorship of Poland's national football team (Polish Football Association), ski jumping and cross-country skiing teams (Polish Skiing Association), and Poland's largest cycling event (Tour de Pologne).
-  Sponsorship cooperation with the Pomeranian Hockey Club and the Academic Sports Association, and sponsorship of the Fight Exclusive Night gala event.
-  Motor rallying – collaboration with the LOTOS Rally Team, whose crew comprising Kajetan Kajetanowicz and Maciek Szczepaniak made their debut in the World Rally Championship (WRC).
-  Nationwide and regional projects – we lent our support to the following local initiatives: the LOTOS Stadion Letni Gdańsk facility, where we organised a Fan Zone during the football World Cup. Fan zones were also organised by LOTOS in Warsaw and Wrocław. We were also involved in speedway projects, including the Golden Helmet annual speedway event, Polish Pairs Speedway Championship, speedway matches featuring Poland's national speedway team (Poland vs Denmark, and Poland vs Sweden), 1st Round of Speedway Euro Championship.
-  Physical education of children and youth – we continued our involvement with sports projects with a social agenda, addressed to children and youth, focusing mainly on football ('Football Future with LOTOS'), winter sports ('In Search for the Champion's Successors'), as well as training young volleyball and basketball players by the Trefl Gdańsk sports club.



Culture sponsorship

KEY CULTURE SPONSORSHIP INITIATIVES UNDERTAKEN BY THE LOTOS GROUP IN 2018 INCLUDED:

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 Cooperation on the following projects: LOTOS Siesta Festival, Atelier Theatre, Theatre Summer – Sopot 2018, events organised at the Gdańsk Shakespeare Theatre, collaboration in the making of a documentary film 'Przyjaźń w cieniu Kremla. Jutro Ukraina' ('Friendship in the shadow of the Kremlin. Tomorrow – it will be Ukraine.').
- 
 LOTOS Jazz Festival, Jasło Days, Czechowice-Dziedzice Days, Autumn Theatre Days, International Festival of Carpathian Folklore, Summer with Jasło County Culture, and the Major Henryk Dobrzański 'Hubal' commemorative show jumping competition.
- 
 Initiatives related to the 100th anniversary of Poland's regaining independence. In 2018, we also supported a number of projects related to the 100th anniversary of Poland's regaining independence, including the Concert for Independent Poland, the National Tennis Day, and the 'Kamerdyner' film.

LOTOS Foundation

Since 2015, the LOTOS Foundation has been in charge of the LOTOS Group's charity policy. The Foundation's mission encompasses a wide range of social activities that make a positive contribution to social and natural environment.

THE LOTOS FOUNDATION PURSUES SOCIALLY RESPONSIBLE CAUSES RELATED TO:

- ✓ Health protection and promotion,
- ✓ Environmental protection, animal protection, and protection of natural heritage, with particular focus on conservation of the environment and natural values of the Baltic Sea,
- ✓ Science and education, development of technology, and innovation,
- ✓ Promotion of physical culture and sport, with particular focus on physical development of children and youth,
- ✓ Culture and arts, including support for initiatives aimed at protecting cultural heritage, with particular focus on cultural initiatives of value to the Baltic Sea region,
- ✓ Order and safety, with particular focus on public and road traffic safety,
- ✓ Social welfare, especially fostering equal opportunities among children, youth, people with disabilities and underprivileged, with particular focus on employees of the LOTOS Group and their families,
- ✓ Charitable activities,
- ✓ Corporate social responsibility and sustainable development,
- ✓ Sightseeing and leisure activities for children and youth,
- ✓ Promotion and organisation of volunteer work,
- ✓ Social and economic initiatives at a local level, including promotion of inter-sector cooperation and development of entrepreneurship,
- ✓ Preservation of national heritage and tradition, strengthening of national, civic and cultural awareness,
- ✓ Activities supporting the development of local communities,
- ✓ Support of rescue services and protection of people,
- ✓ Assistance to victims of catastrophes, natural disasters, military conflicts and wars in Poland and abroad,
- ✓ Securing technical facilities, devices and items of historical value connected with the oil and gas industry,
- ✓ Dissemination and promotion of history of the oil and gas industry,
- ✓ Creation of information- and experience-sharing platforms for individuals and institutions interested in the protection of apparatus, equipment and documents of the oil and gas industry,
- ✓ Care for the cultural heritage, support of culture, protection of Poland's historical objects related to the oil and gas industry, especially in the Province of Gdańsk.

In 2018, the LOTOS Foundation received 1,033 requests for donations. Following reviews, 130 projects received funding totalling PLN 6m in 2018.

The principal criterion taken into account in the selection of projects was their potential to ensure equal opportunities. The largest share went to sports projects aimed at supporting the physical development of children and youth, such as sports trips, as well as support for sports clubs.

The second largest amount of funding went to initiatives promoting science and education – 152 Jasto primary schools pupils and pre-schools participated in the fifth edition of the Jasto Science League with LOTOS, and 43 research, artistic, humanities, mathematics and natural science projects were carried out.

We also supported many cultural projects related to the protection of national heritage.

Financial support for medical treatment of our current and retired employees and their relatives was particularly important to us.

In addition, the LOTOS Foundation supported public service providers – we purchased equipment for several Volunteer Fire Brigades across Poland and, with the youngest in mind, we purchased two incubators and a USG probe used to anaesthetise the youngest patients of the Paediatric Cardiac Surgery Ward of the Gdańsk Zaspaspa hospital.

The donations granted in 2018 were consistent with the objectives provided for in LOTOS Foundation's Articles of Association.